

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 EB-11 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PM-07 H-03 L-03 PA-04 PRS-01 USIA-15

DRC-01 /173 W

----- 086906

R 301005Z MAY 74

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 7507

INFO AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

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E.O. 11652: N/A

TAGS: EFIN, EGEN, FI

SUBJECT: FINNISH AUTHORITIES SUGGEST REVALUATION OF  
THE MARK

SUMMARY: THE IDEA OF REVALUING THE FINNISH MARK AS AN  
ANTI-INFLATIONARY MEASURE DESPITE A HEAVY DEFICIT ON  
THE CURRENT ACCOUNT IS BEING PUBLICLY SUGGESTED AGAIN,  
MOST RECENTLY BY THE BANK OF FINLAND GOVERNOR MAUNO  
KOIVISTO MAY 16, BY TRADE UNION FEDERATION LEADER  
NIILO HAMALAININ ON MAY 25, AND THEN BY FOREIGN TRADE  
MINISTER JERMU LAINE ON MAY 28. LAINE EVEN SUPPLIED A  
FIGURE: 10 PER CENT. JOHANNES VIROLAINEN, MINISTER OF  
FINANCE AND CENTRE PARTY CHAIRMAN (THE OTHER MAIN  
COALITION PARTNER), ON THE OTHER HAND, PUBLICLY SAID ON  
MAY 29 THAT REVOLUTION UNDER THE CURRENT CIRCUMSTANCES  
WAS "NOT SENSIBLE". END SUMMARY

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1. THE UNORTHODOX PROPOSAL TO REVALUE THE FINNISH MARK

IN THE FACE OF A DETERIORATING CURRENT ACCOUNT WAS BEING PUSHED BY CERTAIN YOUNG MAVERICKS IN THE BANK OF FINLAND'S FOREIGN EXCHANGE DEPARTMENT FOR SOME TIME BEFORE IT FIRST GAINED RESPECTABILITY WHEN IT WAS PUBLICLY MENTIONED AS A POSSIBILITY IN A SPEECH BY THE BANK'S GOVERNOR, MAUNO KOIVISTO, AT THE BEGINNING OF LAST NOVEMBER. KOIVISTO LINKED SUCH A STEP TO THE CENTRALIZED LABOR NEGOTIATIONS THEN IN PROGRESS. WORKING LEVEL BANK OF FINLAND OFFICIALS AT THAT TIME PUT OUT THE "INSIDE STORY" THAT THE SUGGESTION WAS MADE TO A) SCOTCH RUMORS OF A DEVALUATION-- THE CURRENT ACCOUNT WAS DETERIORATION AT A RECORD PACE-- AND B) HELP ALONG THE DIFFICULT INCOME NEGOTIATIONS.

2. RATIONALE BEHIND REVALUATION SUGGESTION RESTS ON THREE PREMISES: 1) DE-VALUATION IS UNLIKELY TO HELP RESTORE EQUILIBRIUM IN BALANCE OF PAYMENTS BECAUSE FINNISH PRODUCTION IS ALREADY STRAINING THE LIMITS OF CAPACITY. 2) DEMAND FOR FINNISH EXPORTS WILL REMAIN FIRM, PARTICULARLY IN THE WOOD, PULP AND PAPER BRANCH, WHERE WORLD PRICES ARE INCREASING RAPIDLY. 3) SINCE A LARGE PROPORTION OF FINNISH IMPORTS ARE RAW MATERIALS AND CAPITAL GOODS THAT ARE RELATIVELY PRICE-INELASTIC AND ARE NECESSARY TO THE HEALTH OF THE ECONOMY AND TO INCREASE EXPORTS, A REVALUATION WOULD NOT RESULT IN A BUYING SPREE THAT WOULD FURTHER WEAKEN THE CURRENT ACCOUNT. ALL OF THIS HAS BEEN GREETED BY SKEPTICISM ON THE PART OF PRIVATE BANKERS AND DISMAY ON THE PART OF MANY EXPORTERS, SINCE THEIR GOODS ARE GENERALLY PRICED ON FOREIGN CURRENCY BASIS AND THEIR PROFIT MARGINS WOULD BE REDUCED IN EVENT OF REVALUATION.

3. THE PROPOSAL SUBMERGED FOR A TIME DUE TO THE CONFUSION AND UNCERTAINTIES ACCOMPANYING THE OIL CRISIS, BUT HAS RECENTLY RESURFACED: FIRST ON MAY 16 IN A SPEECH MADE BEFORE LOCAL ECONOMIC ASSOCIATION BY MAUNO KOIVISTO, ("REVALUATION SHOULD BE SERIOUSLY CONSIDERED") THEN BY FEDERATION OF FINNISH TRADE UNION CHAIRMAN NILO HAMALAINEN ("REVALUATION IS THE ONLY EFFICIENT METHOD TO RELIEVE THE PRICE PRESSURE CAUSED BY RISES OF IMPORT PRICES") AND LASTLY BY JERMO LAINE ("TEN PER CENT SHOULD BE SUFFICIENT") LIMITED OFFICIAL USE

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IN A TALK TO AN ASSOCIATION OF INDUSTRIAL PRODUCERS ON MAY 28.

4. PROPOSAL HAS ALWAYS BEEN ACCOMPANIED BY STATEMENT THAT IN ORDER TO SUCCEED, IT MUST BE PART OF A LARGER ANTI-INFLATIONARY PACKAGE. BANK OF FINLAND OFFICIAL (ARANKO) MADE SAME POINT IN DISCUSSION WITH EMBOFF AT LUNCHEON. EMBOFF NOTED THAT PRICES WERE CURRENTLY

SUBJECT TO CONTROL, THAT OBVIOUS DANGER POSED BY RE-  
VALUATION WAS WORSENING OF CURRENT ACCOUNT  
BALANCE OF PAYMENTS DEFICIT, AND HYPOTHESIZED THAT RE-  
VALUATION MIGHT HAVE TO BE ACCOMPANIED BY EITHER DIRECT  
OR INDIRECT RESTRICTIONS ON IMPORTS. ARANKO LOOKED  
SLIGHTLY PAINED.

COMMENT: IDEA OF REVALUATION OF FINNMARK IS UNORTHODOX  
BUT MAY APPEAL TO OFFICIALS WHO HAVE AS YET DEVISED NO  
PROGRAM TO DEAL WITH DETERIORATION OF CURRENT ACCOUNT.  
FORMAL CONSIDERATION IN GOVERNMENT CIRCLES OF PROGRAM  
TO DEAL WITH ECONOMIC PROBLEMS INCLUDING INFLATION  
RUNNING AT ABOVE 15 PER CENT RATE AND SERIOUS BALANCE  
PAYMENTS IMBALANCE EXPECTED IN NEXT SEVERAL WEEKS AND  
REVALUATION CLEARLY CANNOT BE RULED OUT AS PART OF TOTAL  
PACKAGE.  
KREHBIEL

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